



Entrepreneurial orientation rhetoric and franchise system size: The moderating role of military veteran recruitment

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ABSTRACT

Many franchisors seek to enlist military veterans as franchisees because veterans' military training and experience help them act entrepreneurially without straying outside a franchise's business model. We examine whether efforts to recruit veterans alter the relationship between entrepreneurial orientation (EO) rhetoric in franchisee recruitment material and number of franchises. Using a sample of *Franchise 500* firms, we find that veteran recruitment has significant interactions with overall EO, innovativeness and risk-taking. Overall, our results suggest that recruiting veterans as franchisees offers important benefits to franchisors.

1. Introduction

Attracting desirable franchisees is one of franchisors' most critical tasks (Jambulingam and Nevin, 1999). Franchisors depend on franchisees as an important source of revenue and as a means to grow their brand through leveraging their established business concept. However, not all potential franchisees are equally capable or willing to act for the good of the overall brand (Michael and Combs, 2008). While the right franchisees can become champions for franchise success, the wrong franchisees can undermine a company.

Many veterans are attracted to franchising after their military service ends. Indeed, more than 66,000 veteran-owned franchises make up 14% of all franchised outlets in the U.S., employ 815,000 individuals, and contribute more than \$41 billion to the U.S. economy (VetFran, 2015). Veterans are valuable to franchisors because military service trains individuals to work creatively within established parameters (Blass and Ketchen, 2014). Thus, veterans may be better able than the typical person to balance the divergent responsibilities of franchising.

Currently, more than 650 franchisors recruit veterans via the International Franchise Association's "Vetfran" program (www.vetfran.com) – an initiative that was lauded by the White House in 2013 for helping veterans own their own businesses. Despite the large and special role that veterans play within franchised chains, little is known about how franchisors can attract veterans and whether doing so actually helps franchisors. This creates a sizable gap between 'what we know' and 'what we need to know' concerning the role of veterans in franchising activities.

One valuable way to understand the role of veterans is to consider that franchisors seek to attract promising potential franchisees through franchisee recruitment materials that convey information about their franchise offerings. By carefully crafting their franchisee recruitment materials, franchisors communicate important elements of the franchise's values as they seek to differentiate

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their franchise opportunity to potential franchisees much in the same way firms differentiate products for certain sets of consumers (Zachary et al., 2011). Thus, the words and phrases franchisors use in franchise recruitment materials are powerful tools to attract desirable potential franchisees.

Although a variety of attributes may be desired, many franchisors seek entrepreneurial franchisees using language consistent with entrepreneurial orientation (EO). EO reflects the degree to which firms act entrepreneurially (Lumpkin and Dess, 1996) and it has been positively linked to firm performance (Covin and Lumpkin, 2011). When using EO rhetoric in franchisee recruitment materials, franchisors hope to cue values in potential franchisees that identify with entrepreneurial attitudes and behaviors (Zachary et al., 2011). For example, SERVPRO – a disaster recovery, cleaning, and restoration franchise – tells potential franchisees that it abides by the vision set forth by its founders to “help *entrepreneurs* succeed” (SERVPRO, 2016). This communicates that franchisees with an entrepreneurial bent are sought, not just average operators.

We examine whether EO rhetoric in franchisee recruitment material is related to franchise system size and whether targeting veterans as potential franchisees moderates that relationship. We argue that using EO rhetoric to attract veteran franchisees should create advantages for franchisors because the structure of veterans’ military training will lead them to act entrepreneurially but without ‘going rogue’ by acting outside the franchise’s business model. To test our hypotheses, we examine the contents of franchisee recruitment Web sites using a repeated-measures sample of nearly 200 franchises in the *Franchise 500* over five years.

2. Entrepreneurial orientation rhetoric and franchising performance

Franchisors rely on franchisees to generate income, grow the brand, and create and/or test new concepts that help improve a franchisor’s offerings. Franchisees rely on the franchisor to support the brand, coordinate marketing, provide training, and offer other support services that help the franchisees achieve success (Combs et al., 2011). This mutual dependence is fractured when one side violates the letter or spirit of the franchise agreement (Lafontaine, 1992). For example, a devious franchisor might withhold valuable training or fail to keep the brand fresh, forgoing the costs of such services in favor of higher profits. Dishonest franchisees might increase their own profits by decreasing the quality of their offerings and thereby harm the brand.

Soldiers possess characteristics that translate well to entrepreneurship, including military training to be resourceful and improvise, anticipate and preempt enemy actions, and think and act calmly under pressure (Harrell and Berglass, 2012). However, veterans are instilled with a number of unique capabilities and skills that are likely to deter veteran franchisees from ‘going rogue’ by violating the franchisor’s system. Training and operations for many of the jobs and tasks performed during military service are largely explicit and are often accompanied by standardized rules and guidelines (e.g., operations manuals, behavioral protocols). Moreover, soldiers learn to follow orders and direction from higher-ranking members. Working within such a formalized hierarchical structure during service is likely to translate well to other power-based relationships, including the franchisor-franchisee relationship. Thus, entrepreneurially-oriented veterans are more likely to engage in entrepreneurially-oriented behaviors, but they are less likely to break the terms of the franchise agreement and undermine the brand. We expect that franchisors that target veterans as potential franchisees and that use EO rhetoric to do so should benefit from the entrepreneurial efforts of such franchisees to build the franchise, but without sacrificing the integrity of the franchise. Formally stated:

Hypothesis 1: *The relationship between EO rhetoric in franchisee recruitment material and franchise system size is moderated by veteran franchisee recruitment such that EO rhetoric becomes a positive predictor of franchise system size for franchises recruiting veterans.*

Although EO is often discussed as a unidimensional construct, some argue that each dimension may vary independently (e.g. Lumpkin and Dess, 1996). As a result, we consider franchisors’ entrepreneurial aspirations for franchisees across each of the three underlying dimensions of EO developed by Covin and Slevin (1991) – i.e., innovativeness, proactiveness, and risk-taking. This perspective represents that dominant approach in the entrepreneurship literature accounting for roughly 80% of relevant studies (Wales et al., 2013). In doing so, we are able to examine how various EO dimensions may be more or less desirable.

Innovativeness is often described as a cornerstone of entrepreneurship. Franchisors *desire* franchisees that can be innovative in developing new products and practices that could improve the efficiency and effectiveness of the entire franchise system (Jambulingam and Nevin, 1999). However, franchisors *need* franchisees that can be innovative within the parameters and guidelines established by the franchisor in the franchise agreement. Unfortunately, highly innovative franchisees are more likely to challenge franchisors and develop innovations outside of franchisor approval. In addition, a problem for franchisors emerges when innovative franchisees master a franchisor’s business model and then defect to a competitor or start their own business (Floyd and Fenwick, 1999).

We expect the nature of this relationship to change when franchisors recruit veterans. The difficult situations that confront members of the military force them to creatively develop solutions. Businesses recognize this tendency, citing the ability to improvise as a reason to recruit and hire veterans (Harrell and Berglass, 2012). However, most veterans also follow organizational practices and processes well, operating within the boundaries of an organization, and showing loyalty to their organization (Harrell and Berglass, 2012). The development of creativity makes veterans a valuable source of innovation while their commitment to following orders and organizational loyalties suggest that they are more likely to be ‘team players’ who will work comfortably within the parameters of the franchise agreement. As a result, franchisors that target veterans as potential franchisees should benefit from using innovativeness rhetoric in franchisee recruitment material. Stated formally:

Hypothesis 2: *The relationship between innovativeness rhetoric in franchise recruitment material and franchise system size is moderated by veteran franchisee recruitment such that innovativeness rhetoric becomes a positive predictor of franchise system size.*

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